China and India in the world economy: implications for Australia

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China’s and India’s economies have grown extremely rapidly over the past decade.

Real GDP growth, 1997-2007

Excludes some countries with rapid growth propelled by new oil discoveries, or recovering from wars.

However China’s and India’s rapid growth is by no means unprecedented.

Real GDP growth, selected countries and decades

- Israel 1950-60
- Japan 1960-70
- Taiwan 1960-70
- Iran 1960-70
- Korea 1970-80
- China 1997-2007
- Singapore 1950-60
- Taiwan 1970-80
- Korea 1980-90
- Singapore 1960-70
- Israel 1960-70
- Japan 1950-60
- Brazil 1970-80

Source: The Conference Board and Groningen Growth and Development Centre, Total Economy Database, January 2008
Over the past decade China and India have together accounted for a larger share of global GDP growth than OECD countries.

**Shares of world GDP growth**
(at purchasing power parities, over rolling 10-year intervals)

Source: The Conference Board and Groningen Growth and Development Centre, Total Economy Database, January 2008; ANZ calculations.
China and India are reclaiming their historical position as the world’s largest economies

China and to a lesser extent India have become globally significant sources of energy demand.

**Shares of global energy consumption**

- **Oil**
  - China
  - Japan
  - India

- **Total primary energy**
  - China
  - Japan
  - India

- China has accounted for 37% of the increase in world oil consumption since 2001, India 4% (US 14%)

- China has accounted for 46% of the increase in world primary energy consumption since 2001, India 6½% (US 4½%)

China’s share of world trade is growing rapidly – India’s is also rising but more slowly and from a much smaller base.

Shares of world merchandise trade

Merchandise exports

Merchandise imports

Source: IMF Direction of World Trade Statistics.
China and India are both becoming more significant players in global commercial services trade.

**Shares of world trade in commercial services**

Exports of commercial services

<table>
<thead>
<tr>
<th>Year</th>
<th>China</th>
<th>Japan</th>
<th>India</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
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<td>1997</td>
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<td>2005</td>
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<tr>
<td>2006</td>
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</tbody>
</table>

% of world total

China’s economic growth is overwhelmingly driven by domestic demand, not by exports (in particular, not by exports to the US).
China’s and (to a lesser but growing extent) India’s FX reserves given them greater clout in global capital markets.

Fifty years ago, India’s per capita GDP was higher than China’s – now, China’s is more than double India’s.

Source: The Conference Board and Groningen Growth and Development Centre, Total Economy Database, January 2008
China’s rapid growth has been facilitated by very high rates of saving and investment, India’s less so.

**Gross saving and investment as a proportion of GDP**

**China**

**India**

Sources: EIU; ANZ.
China’s better long-term growth performance reflects its greater success in boosting labour participation and productivity.

### Growth accounting for China and India 1950-2005

<table>
<thead>
<tr>
<th>Period</th>
<th>Population</th>
<th>Change in employment rate</th>
<th>Productivity*</th>
<th>GDP</th>
<th>Per capita GDP</th>
<th>Employment rate† (%)</th>
</tr>
</thead>
<tbody>
<tr>
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<tr>
<td><strong>China</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1950-1960</td>
<td>2.0</td>
<td>1.0*</td>
<td>1.6*</td>
<td>6.1</td>
<td>4.0</td>
<td>45.5</td>
</tr>
<tr>
<td>1961-1979</td>
<td>2.0</td>
<td>0.4</td>
<td>2.0</td>
<td>4.4</td>
<td>2.4</td>
<td>48.9</td>
</tr>
<tr>
<td>1979-1991</td>
<td>1.4</td>
<td>1.2</td>
<td>4.2</td>
<td>7.0</td>
<td>5.5</td>
<td>56.7</td>
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<tr>
<td>1991-2006</td>
<td>0.9</td>
<td>0.2</td>
<td>7.9</td>
<td>9.1</td>
<td>8.1</td>
<td>58.1</td>
</tr>
<tr>
<td><strong>India</strong></td>
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<tr>
<td>1950-1960</td>
<td>1.9</td>
<td>na</td>
<td>na</td>
<td>3.9</td>
<td>2.0</td>
<td>37.7</td>
</tr>
<tr>
<td>1961-1979</td>
<td>2.3</td>
<td>-0.3</td>
<td>1.3</td>
<td>3.2</td>
<td>0.9</td>
<td>35.3</td>
</tr>
<tr>
<td>1979-1991</td>
<td>2.1</td>
<td>0.4</td>
<td>2.7</td>
<td>5.3</td>
<td>3.1</td>
<td>37.2</td>
</tr>
<tr>
<td>1991-2006</td>
<td>1.7</td>
<td>0.4</td>
<td>4.4</td>
<td>6.5</td>
<td>4.8</td>
<td>39.5</td>
</tr>
</tbody>
</table>


China has been more accommodating of foreign direct investment than India, though this seems to be changing.

Over the next two-three decades India may have four advantages relative to China

- India is less inefficient in its use of energy and capital than China
  - India uses about 40% less primary energy per dollar of GDP than China
  - China has needed to invest 0.5 pc pt of GDP more than India in order to lift real GDP growth by 1 pc pt per annum

- India may be less disadvantaged by climate change and other environmental problems than China

- India seems better-placed than China to handle the common desire of people to have a say in how they are governed, and by whom, once a range of basic material needs have been satisfied
  - this typically emerges when average incomes reach a range of US$8-12,000 per head (in today’s dollars)

- India has a more favourable demographic profile than China
  - China’s median age is 33, compared with India’s 24
  - China’s working-age population will peak in 2015, and fall by 156mn over the following 35 years
  - India’s working-age population will surpass China’s in 2030, and will still be growing in 2050
India’s demographic profile is potentially a major advantage over China ...

... but to capitalize on that advantage, India needs to develop its ‘human capital’ more effectively

### Selected ‘human development’ and other indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>China</th>
<th>India</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infant mortality (per 1000 live births, 2005)</td>
<td>23</td>
<td>56</td>
</tr>
<tr>
<td>Probability at birth of surviving to 65 (%) -</td>
<td></td>
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<tr>
<td>Males born 2000-05</td>
<td>73.8</td>
<td>57.4</td>
</tr>
<tr>
<td>Females born 2000-05</td>
<td>80.9</td>
<td>66.1</td>
</tr>
<tr>
<td>1 yr olds immunized against TB (%, 2005)</td>
<td>86</td>
<td>75</td>
</tr>
<tr>
<td>Population with access to -</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Improved sanitation (2004)</td>
<td>44</td>
<td>33</td>
</tr>
<tr>
<td>Improved drinking water (2004)</td>
<td>77</td>
<td>86</td>
</tr>
<tr>
<td>Adult literacy (%, 2005)</td>
<td>90.9</td>
<td>61.0</td>
</tr>
<tr>
<td>Cell phones per 1000 population (2005)</td>
<td>302</td>
<td>82</td>
</tr>
<tr>
<td>Internet users per 1000 population (2005)</td>
<td>85</td>
<td>55</td>
</tr>
<tr>
<td>No of procedures to start a business (2008)</td>
<td>13</td>
<td>13</td>
</tr>
<tr>
<td>Rigidity of employment index (2008)</td>
<td>24</td>
<td>30</td>
</tr>
<tr>
<td>No of days to enforce a debt (2008)</td>
<td>406</td>
<td>1,420</td>
</tr>
</tbody>
</table>

*Sources: UNDP Human Development Report 2007-08; World Bank Doing Business 2008 database*
Developing country energy consumption will rise faster than incomes for the next few decades

Primary energy consumption and GDP per capita, 2005

Sources: BP Statistical Review of World Energy 2005; IMF World Economic Outlook September 2006; Economics@ANZ.
Primary energy consumption in China, India etc will rise substantially

**Primary energy consumption and GDP per capita, 1965-2005**

Sources: Groningen Growth and Development Centre *Total Economy Database*; BP *Statistical Review of World Energy* (2006); Economics@ANZ.
The ‘metal intensity’ of developing country growth is likely to rise sharply.

Base metal consumption and GDP per capita, 2004

Sources: IMF World Economic Outlook September 2006; Economics@ANZ.
Metal demand from China (and other emerging markets) is likely to continue to grow rapidly.

**Metal consumption and GDP per capita, 1965-2005**

**Aluminium**

- China
- Korea
- EU
- US

**Steel**

- Korea
- Japan
- US

*Sources: IMF World Economic Outlook September 2006; (Figure 5.7); Economics@ANZ.*
Chinese already eating as much beef per head as Japanese, and milk consumption is also rising.

**Beef consumption and GDP per capita**

- **China** (1990-2005)
- **Japan** (1970-2005)

**Milk consumption and GDP per capita**

- **Japan** (1970-2005)
- **Australia** (72.7g per day)
- **Australia** (601g per day)

Sources: UN Food & Agricultural Organization; Groningen Growth and Development Centre; Economics@ANZ.
Australia is almost uniquely placed, among Western nations, to benefit from the rapid growth of China and India

- China is a net importer of commodities and a net exporter of manufactured goods
  - and it’s now large enough to be having a significant impact on the global prices of the commodities and goods in which it trades

- Australia (unusually for an ‘advanced’ economy) is a net exporter of commodities and a net importer of manufactured goods
  - Australia has many of the things which China needs but can’t produce for itself
  - and (thanks to our own program of unilateral trade liberalization) we have relatively few of the industries which are ‘threatened’ by China’s growing dominance

- For only the third time in the last 100 years, the prices of Australia’s exports are rising relative to the prices of our imports
  - ‘terms of trade gains’ are now adding to growth in Australia’s national income rather than subtracting from it (as they did for most of the twentieth century)
The commodity boom has dramatically reversed the long-term decline in Australia’s terms of trade.

Sources: Australian Bureau of Statistics; US Bureau of Economic Analysis; Economics@ANZ.
‘Terms of trade’ gains since 1999 have been worth $3,400 pa to each Australian, on average

Note: Gross domestic income (GDI) is GDP adjusted for changes in the terms of trade (ratio of export to import prices). Sources: ABS; Economics@ANZ.
The reversal in Australia’s terms of trade has played a major role in lifting Australia’s relative standard of living.

Australia’s ranking among OECD countries in terms of GDP per capita

Source: The Conference Board and Groningen Growth and Development Centre, Total Economy Database, January 2008
Personal tax cuts financed by windfall business tax revenues have boosted overall spending in Australia.
The mining boom and efforts to alleviate infrastructure bottlenecks have prompted a surge in non-residential construction.
Rising export commodity prices (along with swings in relative interest rates) have had a major impact on the A$.

Sources: Thomson Financial; Reserve Bank of Australia; ANZ.
The commodities boom is the major (though not the only) reason for the emergence of a so-called ‘two-speed economy’

Resource-rich vs other States and Territories

Employment

Retail sales

Engineering construction work

House prices
The US now accounts for less than 6% of Australia’s exports – less than China, Korea or even India.

**Australia’s major export markets**

% of total (12-mth moving average)

- US
- Japan
- EU
- China
- Korea
- India
Reliance on banks’ overseas borrowings to finance the deficit leaves Australia exposed to abrupt shifts in global markets.

**Financing Australia’s current account deficit**

A$ bn - 4-qtr moving total

- Current account deficit

**Net foreign debt, by borrower**

% of total

- Private sector financial corporations
- Private sector non-financial corporations
- Public sector

**Maturity structure of net foreign debt**

% of total

- < 28 days

Sources: Australian Bureau of Statistics; ANZ.
The rise of China and India will challenge the way Australia thinks about the world

- Historically, the world has rarely adapted to the emergence of new global powers without major conflict
  - will the world’s existing major powers mis-handle the rise of China and India the way the world mis-handled the emergence of Germany and Japan between the 1860s and 1930s?
  - ‘conflict’ need not be only military – trade wars can also inflict significant damage
- China and India will probably seek to reshape the international system rather than simply to join it
  - just as the United States sought to do after the end of both of the 20th century’s world wars
- Australia may on occasion face difficult trade-offs between its economic interests and its traditional political & security interests
  - foreign investment in ‘sensitive’ or ‘strategic’ sectors
  - responses to climate change
  - regional disputes and conflicts (eg Taiwan)